

A vertical strip on the left side of the slide shows a close-up, low-angle view of several large, fluted classical columns of a government building, likely the U.S. Department of the Interior. The columns are made of light-colored stone and have ornate capitals.

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# **U.S Department of the Interior Facilities and Asset Management Conference**

Property Audit Issues

May 5, 2004



## Agenda

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- Welcome and introductions
- Types of property reported
- Federal accounting guidance for property
- KPMG's audit approach to property
- Prior Year audit issues
- Questions and comments



## Types of Property reported

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- General Property, Plant, and Equipment

Principal Financial Statements and Notes

- Deferred Maintenance

Required Supplementary Information

- Stewardship Assets

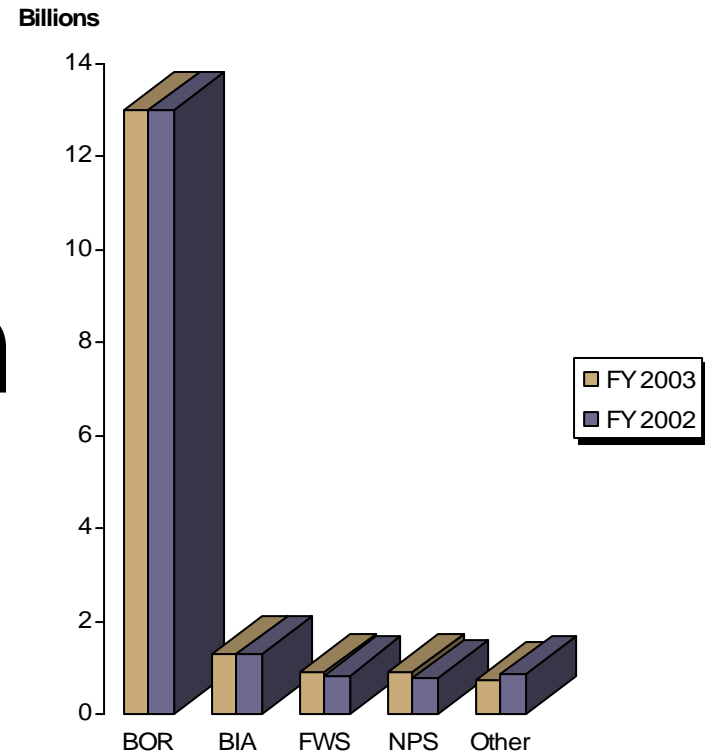
Required Supplementary Stewardship Information



## General Property, Plant, and Equipment

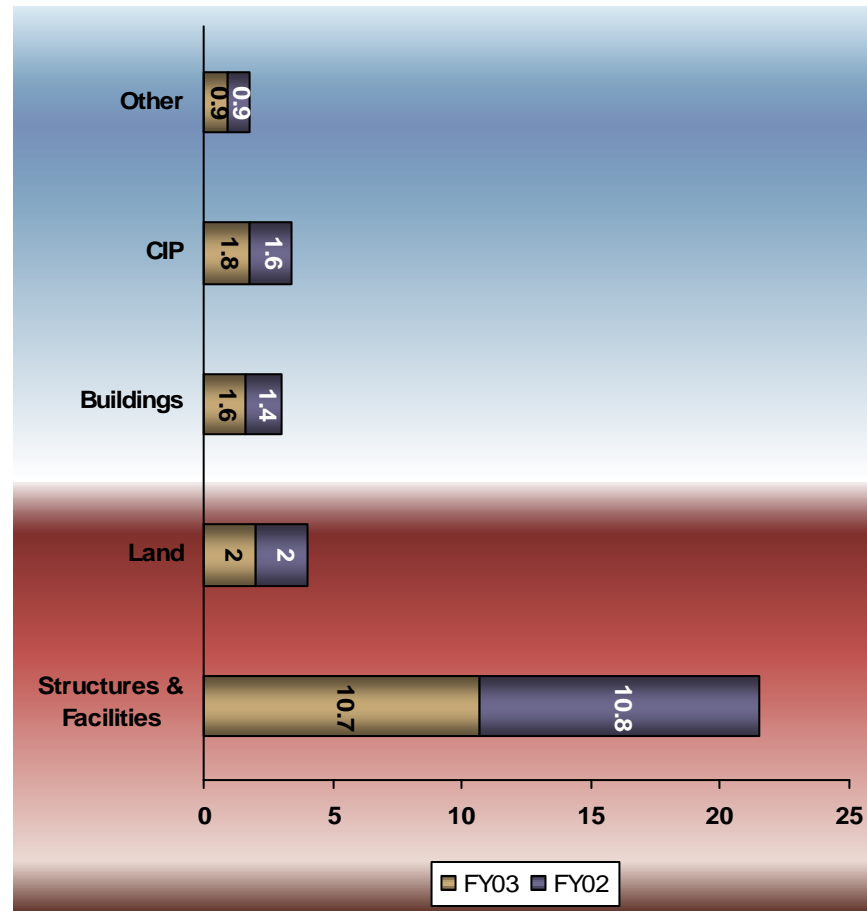
# \$17 Billion

- Property that is used in DOI operations and is consumed over time
- Amounts are reported in the financial statements and notes to the financial statements





## Type of General PP&E (in Billions)

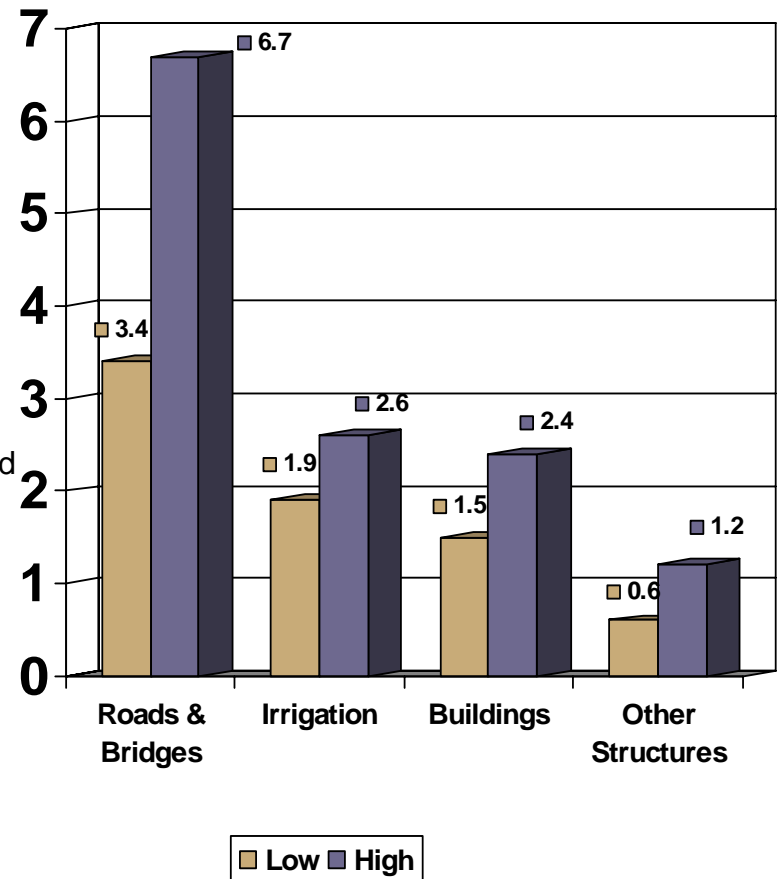




## Deferred Maintenance

Big estimate  
(\$7.4 and \$12.8  
Billion)

- Estimate of costs associated with deteriorating facilities for which repair and maintenance have not been adequately funded
- Amounts encompass general PPE and stewardship assets and are reported as Required Supplementary Information





## Stewardship Assets

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- Consist of public domain land and heritage assets, such as national monuments and historic sites, that have been entrusted to DOI to be maintained in perpetuity for the benefit of current and future generations
- No financial value is placed on these assets and are reported as RSSI
  - Stewardship Land
    - Total acres: 448 Million
    - BLM: 262 Million acres
    - NPS: 84 Million acres
    - FWS: 96 Million acres
  - Heritage Assets
  - Investment in Non-Federal Physical Property
    - Total expenses for FY 2003: \$645 million





## Federal Accounting Standards Advisory Board (FASAB)

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- The FASAB was established in 1990 to provide a comprehensive set of accounting standards comprising generally accepted accounting principles (GAAP) for the Federal Government
- The FASAB issues concepts and statements on Federal Financial Accounting
- On October 19, 1999, the American Institute of Certified Public Accountants (AICPA) recognized accounting standards published by the FASAB as GAAP for Federal financial reporting entities





## FASAB Accounting Standard Statements Concerning PPE

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- SFFAS No.6 - Accounting for Property, Plant and Equipment
- SFFAS No. 8 - Supplementary Stewardship Reporting
- SFFAS No.14 - Amendments to Deferred Maintenance Reporting





## FASAB: Characteristics of General PPE (SFFAS 6)

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- Tangible assets
- Estimated useful life of two or more years
- Not held for sale in the ordinary course of business
- Used or intended to be used in operations

### Accounting Treatment of General PPE

- Costs are capitalized on the balance sheet
- Depreciation used to charge costs to operations



## FASAB: Disclosures

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- Material amounts of PPE should be disclosed in the financial statements
  - The cost, associated amortization, and book value
  - The estimated useful life for each major class of asset
  - The method(s) of amortization



## FASAB: Stewardship Land / Heritage Assets

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- Land not acquired for or in connection with general PPE
  - Forests, Parks, Gracing, Wildlife
- Heritage PPE that are unique because of:
  - Historical or natural significance
  - Cultural, educational or aesthetic value
  - Significant architectural characteristics



## FASAB: Accounting Treatment of Stewardship Assets

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- Not recorded on the balance sheet
- Costs are reported in the year incurred on the Statement of Net Costs or disclosed in footnotes
- Reported as required Supplemental Stewardship Information
- Reported in terms of physical units (number of acres, buildings, monuments, etc.)
- Describe major types of assets or categories of land and of physical units on hand at the beginning of the period, +, -, end of period
- Condition of the assets (90% of assets above, at, or below acceptable condition)



## FASAB: Deferred Maintenance

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- Maintenance defined as keeping PPE in acceptable condition
- Deferred maintenance is maintenance not performed when it should have been
- Disclosures required
  - Identification of major classes of PPE for which maintenance deferred
  - Description of acceptable condition of the PPE
  - Estimated cost of deferred maintenance to be reported as RSI





## FASAB 14: Amendments to Deferred Maintenance Reporting

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- Effective in FY 1999 changed the status of deferred maintenance reporting from basic financial statement information to Required Supplemental Information (RSI)
- Effect of above change is that it modified the level of review by auditors -- audit procedures for supplementary information





## Auditing General PPE

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- Obtain an understanding of the PPE process from start to finish and test significant internal control over the process, such as approvals, reconciliations, inventories and adequate supporting documentation
- Good internal control equates to less substantive audit testwork
- Existence and Rights – Select a sample of PPE, additions, deletions and vouch to supporting documentation; physical observation of PPE;
- Completeness – Year-end search for unrecorded liabilities, search conducted on asset expense accounts and stewardship asset listings, review of PPE transfers (CIP and between funds and bureaus)
- Valuation – Review the estimate of depreciable lives and recalculate depreciation expense
- Presentation and disclosure – Compare to Federal accounting guidance (Federal accounting and reporting checklist published by OMB)
- Analytical procedures



## **Auditing RSI (Deferred Maintenance) and RSSI (Stewardship Land and Heritage Assets)**

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- OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements
- OMB Bulletin No. 01-02, Audit Requirements for Federal Financial Statements
- AICPA Codification of Statements on Auditing Standards (AU 558.07 and 319)



## RSI/RSSI Audit Requirements (AU 558.07)

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- Inquire of management about methods of presentation, including significant assumptions and interpretations, and any changes in those methods
- Compare information for consistency
  - Consistent with response to inquiries
  - Consistent with accounting records
  - Other knowledge obtained during the audit
- Consider obtaining written representations from management
- Make additional inquiries if auditor believes that RSI/RSSI may not be measured or presented in accordance with OMB and SFFAS guidelines



## Additional RSSI Audit Requirements (AU 319)

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- Gain an understanding of the components of internal control
- Assess control risk
- Test controls to support low level of risk



## Audit Issues

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- Material weakness in internal control at DOI
- Findings span the majority of the bureaus
- Recommendations



## Material Weakness

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- A material weaknesses are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that in our judgment, does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions
- Highest level of internal control finding
- As a result of our audit, spent a significant amount of time and resources analyzing, counting, reconciling, and PPE after year-end to ensure amounts were fairly stated.



## Summary of DOI PPE Findings

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- Acquisition and Disposal
- Land and Land Rights
- Construction in Progress
- Leased Property
- Inventory and Certification Process
- Depreciation
- Reconciliation





## Acquisitions and Disposals

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- Not recorded in a timely manner and not adequately supported by source documents:
  - Incorrect amounts;
  - Capitalized assets below Interior's capitalization threshold;
  - Capitalized assets in the current year that Interior had inadvertently expensed in prior years;
  - Expensed assets that should have been capitalized; and
  - Recorded the net book value of property rather than the gross cost and accumulated depreciation.

**Recommendation** - Implement internal controls to ensure that property, land, and equipment transactions are recorded in the subsidiary ledger and general ledger at the proper amount and at the time the financial event occurs. This should include analyzing capitalized amounts to ensure that they are above the capitalization threshold and properly coding disbursements to ensure that they are appropriately capitalized or expensed.



## Land and Land Rights

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- Interior does not have a complete and accurate inventory system for land and land rights (In the process of completing an inventory of land and land rights and expects to complete this project in fiscal year 2005); and
- Improperly expensed certain land acquisitions and did not record a land disposal.

**Recommendation** - Interior complete the five-year action plan to establish a complete and accurate inventory of land and land rights and to reconcile the inventory records (i.e., subsidiary ledger) to the general ledger. We also recommend that Interior establish controls to ensure land acquisitions and disposals are properly recorded in the general ledger.



## Construction in Progress

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- Interior recorded advances for future construction as construction in progress, rather than as advances to others.
- Interior did not transfer completed construction projects at the time the asset was placed in service or consistently record the proper transfer amounts.
- Interior recorded depreciation on certain projects that were still under construction.
- Interior did not consistently reconcile additions to supporting vendor invoices or have a fully developed process for capturing internal payroll and purchased materials related to the construction of property.

**Recommendation: Review on a monthly basis the construction in progress accounts to identify completed projects that should be transferred to the appropriate property account and reconcile the construction in progress account to the supporting vendor invoices. Also implement controls to ensure Interior properly records internal payroll and purchased material for property that Interior constructs.**



## Leased Property

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- Interior does not consistently review leases to determine if they were capital or operating leases
- Difficulty providing documentation supporting certain lease reviews.
- Interior was not able to efficiently prepare lease information for disclosure in the financial report.
- Interior has several different lease databases and did not consistently maintain them throughout the year.

### Recommendation:

- **Expand policies on determining whether leases should be classified as capital or operating leases and communicate these policies through training programs.**
- **Document capital versus operating lease determinations and include supporting documentation for present value calculations and fair market value assessments.**
- **Consider consolidating several of lease databases and maintain these databases throughout the year to enable Interior to properly report this information in its financial statements.**



## Inventory and Certification Processes

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- Interior did not consistently identify acquisitions and disposals that need to be reflected in the financial statements.

### Recommendation:

- **Improve its inventory and certification policies and train individuals on how to perform inventory observations and certifications.**



## Depreciation

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- Interior has not established and implemented controls to ensure depreciation is properly calculated and recorded.
- Certain depreciation calculations were erroneous
- Interior had assets with abnormal balances in the accumulated depreciation account,
- assets that Interior placed in service but did not start depreciating, and assets with placed in service dates that did not match the receiving report dates.

### Recommendations:

- **Develop and implement formal month-end financial reporting processes to test depreciation calculations, start depreciation for assets placed in service,**
- **Identify and resolve assets with abnormal balances in the accumulated depreciation account. This should include having a second team member review and approve the processes to ensure depreciation is properly calculated and recorded**





## Reconciliation

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- Interior is not able to accurately and efficiently reconcile certain subsidiary and general ledgers for property, plant, and equipment.
- Interior does not promptly resolve reconciling items and does not maintain and reconcile certain subsidiary ledgers throughout the fiscal year, and instead reconciles the ledgers at the end of the year.

### Recommendations:

- Interior should reconcile its subsidiary and general ledgers on a monthly basis, in accordance with its policies. This should include promptly resolving any reconciling items





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## Questions or Comments